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C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000178

SIPDIS

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SUBJECT: BURMA'S ENERGY POLICY: BETTER LUCKY THAN GOOD

REF: A. 02 RANGOON 1340

[B](#). 02 RANGOON 651

[C](#). 01 RANGOON 1819

[D](#). 01 RANGOON 783

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.5 (B,D)

[1](#)1. (C) Summary: Burma may have found a patch for its energy problems in 2003. A slower decline at the aging A'Pyauk gas fields (about 50 miles north northwest of Rangoon), unexpectedly large finds of gas in the recently developed Nyaungdon field (about 20 miles northwest of the capital), and better than expected performance by the pipeline from Kanbaw (in Tanintharyi Division) to Hpa'an (in Kayah State) and Rangoon, apparently have lifted supplies of gas in lower Burma from 114 mcf/d in early 2002 to perhaps as much as 178 mcf/d by the end of February 2003. Some of these numbers are still soft, but, the overall supply of gas and electricity should be better (and perhaps far better) in Rangoon in 2003 than it was in 2002. There may also be some substantial savings of foreign exchange (perhaps as much as \$100 million) on anticipated oil imports that now will not be required. Longer term (meaning 2004), the GOB is banking on hydropower to meet its energy needs. By the end of 2003, the Ministry of Electric Power hopes to have an additional 355 megawatts of hydropower generating capacity on line, as well as a new 125-megawatt coal-fired plant. If successful, that could produce the first balance between electricity supply and demand in Burma that anyone has seen for many years. However, it is still too soon to declare Burma's energy crisis over. If the new found gas gives out before the GOB can bring on line its planned hydropower plants, Burma could find itself saddled in late 2003 and early 2004 with the same sort of shortages that plagued life here in 2002. End summary.

The GOB's Got Gas...

[1](#)2. (C) Burma may not face the same problems with electricity supplies during the dry season of 2003 as it did in 2002. When we reviewed Burma's energy balance last year, the situation looked grim (see Ref B). Nationwide demand for natural gas stood at 234 million cubic feet per day (mcf/d), while supplies were estimated at only about 114 mcf/d because of the rapid decline in production in the A'pyauk fields, which had always provided the vast majority of Burma's onshore gas. The net result was that gas supplies were not even sufficient to meet the demands of Burma's gas-fired electricity generating facilities, much less that of the country's urea, methanol, steel, and other plants. The GOB, as a result, was obliged to shut down a good portion of its industrial capacity and convert a number of its gas-fired generating plants to diesel. Even so, day-to-day electricity generating capacity dropped to between 550 and 600 megawatts during the dry season of 2002; i.e., to only 65 to 70 percent of Burma's estimated 800 to 840 megawatt demand. Blackouts and brownouts became the rule throughout lower Burma, including Rangoon.

[1](#)3. (C) Since then, however, the GOB appears to have hit a stretch of luck. While production at the A'pyauk fields continues to decline, from 116 mcf/d in 1998 to about 35 mcf/d today, the GOB's development of the Nyaungdon field has gone far better than anyone predicted. Late last year, that field was producing only about 25 mcf/d. This year, according to government press releases, new discoveries have pushed production at Nyaungdon's 14 wells to more than 60 mcf/d. According to Ministry of Electric Power planners, GOB workers are working overtime to replace the current 8-inch pipeline with one sufficient to carry the larger flow. Reportedly, that new, larger capacity pipeline should be ready by the end of February.

[1](#)4. (C) At the same time, the pipeline which the government installed to carry gas from the Yadana export pipeline at Kanbaw to Hpa'an (later extended to Rangoon) has apparently performed far better than expected. When the pipeline was first completed in 2001, most western experts judged it would never carry more than 10 to 20 mcf/d, given its poor quality and contract terms which guaranteed only 20 mcf/d to the government. However, the Ministries of Energy and Electric Power now claim that they are pushing 50 mcf/d through the

pipeline -- more than enough to meet the demand of the new cement plant at Hpa'an while still leaving supplies for Rangoon's electricity facilities.

15. (C) The net result of these developments is that Burma could have 60 mcf/d to 70 mcf/d of additional gas over and above levels in early 2002, even after allowing for the decline in production in the A'pyauk field. In fact, assuming the best-case scenario, the GOB could have available as much as 178 mcf/d of natural gas (128 mcf/d being the total onshore production of gas from all fields including A'pyauk and Nyaungdon, plus 50 mcf/d from offshore) -- a level not seen since 1998.

...But Will the Juice Flow?

16. (C) Of course, it remains to be seen how real and how sustainable these increased supplies will prove to be. The full 60 mcf/d of gas from Nyaungdon has yet to arrive in Rangoon. Furthermore, the Nyaungdon field in particular appears to have been developed entirely with a focus on the economy's short-term needs, without any attention to sustainability. If the development program has been too aggressive, then that field too could peter out (as the A'pyauk field has) far sooner than the GOB now expects.

17. (C) In the case of the Kanbaw-Hpa'an-Rangoon pipeline, there are two issues: contract terms and durability. The GOB may now be drawing more than the 20 mcf/d it is entitled to under its contract. However, if it is, it is probably because of a short-term quirk in the system. It is possible that Thailand cannot, for technical reasons, use all of the pre-paid gas that it has available in the stock it has built up under its "take or pay" contracts. Producers in the second major offshore gas field, Yetagun, may also not yet be ready to use their full share of the pipeline's capacity. If not, this may allow for additional gas to be pumped, from the Yadana field, for Burmese consumption. In either case, Burma could shortly find itself squeezed back to the 20 mcf/d to which it is actually entitled, as Thai drawings increase and/or Yetagun production comes up to full capacity. As for durability, the pipeline was not built to the highest standards. In fact, the most common prediction at the time it was completed was that it would blow up or blow out every time it was filled. That, in fact, was the result during its first weeks of operation. Since then, it has settled down, but there is still the risk that an accident will take the pipeline down for several weeks or months.

18. (C) Nevertheless, the bottom line now is that the lights are on in Rangoon and they could stay on throughout the dry season, if the augmented supplies of gas can be sustained. Since October, there have been occasional outages, but we have not had anything like the rolling blackouts that plagued Rangoon during 2002's dry season. Equally importantly, if the GOB has been able to bring an additional 60 to 70 mcf/d of gas on-line since early 2002, there will be major savings of foreign exchange. Each 22 mcf/d of gas effectively translates into 1 million barrels per year of diesel fuel. At current prices, consequently, an additional supply of 65 mcf/d of gas would mean potential savings of up to 3 million barrels per year of diesel worth approximately \$100 million - \$120 million. It would also mean less downward pressure on the kyat, which at 1100 kyat/dollar, is still running well above the 1200 to 1400 kyat/dollar rate that we predicted for the end of 2002 and the beginning of 2003.

I've Got One Word For You: Hydropower

19. (C) The Ministry of Electric Power asserts that the long-term solution to all these uncertainties and stop-gap solutions is hydropower. According to the Ministry's Director General for Planning, there is now 390 mw of installed hydropower capacity in Burma, but this is only about 1 percent of Burma's estimated potential. In its most recent 5-year plan, the GOB set the ambitious goal of installing an additional 2000 mw of hydropower capacity by 2006 (pie in the sky at best). Unlike many older hydropower plants, which are located in remote border or mountainous areas, many of the new plants are to be constructed in river valleys closer to the main power grids around Mandalay and Rangoon. Mini-hydropower and other small plants will also be built to electrify more rural areas.

10. (C) The DG admitted that for the next two years, the objective is to patch as quickly as possible current energy shortages. Thus, planners hope that by the end of 2003 the Ministry's Myanmar Electric Power Enterprise (MEPE) will have completed two hydropower plants with a combined 355-mw capacity (the Paunglaung dam in southern Mandalay Division with 280 mw, and the Mone dam in central Magway Division with 75 mw). They also hope to bring on line one coal-fired thermal plant with 125-mw capacity. This additional capacity, once plugged into the grid could make up the current deficit in power production in lower Burma, while replacing imports of diesel, and reducing the GOB's exposure to gas supplies. By 2005, the planners estimate, the new hydropower capacity should be well ahead of total demand,

allowing strategists to ponder longer-term energy plans.

Comment

11. (SBU) If all goes as planned, for the next several months at least supplies of gas and electricity to the capital should top the levels available in 2002. If the planned hydropower is actually installed and available as predicted, then this additional gas supply may in fact bridge the gap.

12. (C) Of course, there will still be a case for the construction of a major pipeline to bring Burma's offshore gas onshore for domestic use, if only to fuel now idled industrial facilities. However, accessing that gas will not be the sort of critical political event that finding supplies of fuel was this year. Had the citizens of Rangoon had to spend one more season in the dark with living standards undermined by a rapidly depreciating kyat, this government truly could have been in trouble. Even now, it's not secure, but with the energy situation now apparently under control, at least to some degree, it may have more breathing space than we anticipated several months ago.  
Martinez